

The effect of customer perception, loyalty and profits on the life expectancy of a business organization

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Longer life expectancy of a business organisation is a desired quality for its stakeholders. Such a phenomenon is a resultant of certain factors which need to be investigated and well understood for the long-term sustainability of a business organisation. This study aims to describe company life expectancy in relation to customer perceptions, customer loyalty and company profits. A conceptual model was constructed and hypotheses were formulated to describe and establish the effect of the customer perceptions, customer loyalty and company profits on the life expectancy of a business organisation. Survey data were collected from 100 managers/ owners with businesses in an industrial area in Bursa, Turkey. The study used statistical reasoning to test for correlations and regression. The findings show that there is a positive effect of customer perceptions, customer loyalty and company profits on the life expectancy of the firm.

Key Words: Business organization life expectancy, Customer loyalty, Customer perceptions, company profits.

1. Introduction

The life expectancy of companies in Turkey are reportedly very short which raises concerns about the economy (Firat, 2007). While the World Bank reports the life expectancy of companies as 40 years, this is 34 years in Turkey. Furthermore, an almost 80% of companies are reported not be able to reach five years and the 96% of companies ten years in operation in Turkey (Firat, 2007).

Bayraktar (2014), on the findings of Istanbul Association of Manufacturers in June 2014 reports that the first 500 industrial companies in Turkey had reached debts of 238 billion Turkish liras in bank loans and that the number of loss makers were doubled and companies in severe debts had stood at 4%. These results not only affects the shareholders and the employees of the companies but the national economy as well.

Companies are often recommended to manage customer perceptions for a good positioning of their products in the market leading to customer loyalty.

Profits are realised when the total income exceeds total cost. Classically, the company performance is measured on its ability to maximise profits. It is thought that the profit rates of commercial enterprises selling wholesale are lower, and this situation carries risks. When analysing profits profit, the six factors below come into mind as significant:

- Funding power
- Proficient employees
- Manufacturing and communication technologies
- Innovation
- Organizational perception management
- Customer loyalty

A company is more likely to maintain profitability if it had the power of funding products and raw materials at an optimum cost to the company with the opportunity to meet its expenses and thus display a strong position.

One of the main essential tasks of company managers is to be able to analyse the financial performance of the company and the economic environment the company is in (Garith, 2007). The company manager should improve the funding power of the company as much as possible. This, he should do with the retained earnings of the company. If retained profits fail to be added to company funds then the company will not be able to grow which will affect its life expectancy. Apart from others, maintaining customer loyalty is one of the factors that make the sustained profitability and the funding of the company possible.

Human resources are regarded as the most important resources which can add value to the company, more so, if they comprise proficient, well-trained employees with good knowhow and a team spirit. Proficient employees contribute positively to company profits with their new ideas, knowledge and ambitions (Kelley & Littman, 2007). A good policy of promotion and rewards is said to improve employee productivity and loyalty. The higher the proficiency of company employees the stronger will be the company's stance against its competitors.

Companies not adapting modern technological developments carries the risk of falling behind competition bear high costs of production resulting in poor profitability. Technical qualities of products and services are essential means of satisfying customers' wants. When the product quality suffers so will be the perceptual quality of the product in the eyes of the customers, hence a flow of customers towards competing products (Zaltman, 2014).

Communication technologies are important tools in reaching customers. Companies which manage to use communication technologies effectively may achieve a good customer impression on their products and affect customer preferences positively through sending messages affecting customer perceptions resulting in higher contribution to profits.

Walter Lippman in Çelik (2013) argues that assured words and images targeted to a group of people can create a kind of virtual reality affecting the behaviour of people. In this respect, we can say that the term of perception management is used as a kind of soft power and its aim is to capture the hearts and minds of people (Çevik, 2013).

Innovation providing benefits to companies can be viewed in two different categories - radical and incremental. Radical innovation refers to an original development first in its kind in the industry. For the company, this is a costly and a long process. Incremental innovation, on the other hand, is a development on the existing products in response to customers' needs and wants not detected by the competition. Innovating new products are a key in reaching surprising levels of profitability (Kılıç, 2013). The three conditions that are needed to create and develop an effective innovation technology include: to understand the needs and wants of the market and match them to the resources and the capabilities of the company under a vision; to set up an innovation-focused mission; to identify market opportunities and innovation possibilities in parallel with company mission (Arslan, 2014).

Adding customer value to products more and better than competition gives companies a differential advantage. Peters (2008) depicts that fortune is acquired not only by optimization but also by innovation which means that fortune stems not making the known perfect but by catching the unknown with its deficiencies. The Competitiveness Report of the World Economic Forum ranks Turkey as 46th in innovation capacity amongst 144 countries and 76th in research and development.

Figure 1. World Ranking Innovation Indexes

	Turkey	Japan	USA	China	Brazil	Russia	Greece
Innovation Capacity	46	1	6	22	28	42	101
Quality Of Scientific Research And Its Institutions	71	15	2	35	41	42	77
Research And Development Expenses Of The Enterprises	76	2	5	23	29	46	101
University-Industry Cooperation In R&D Expenses	67	20	1	23	34	48	90
Advanced Technology Products Procurement From The State	89	49	4	13	60	69	91
Scientist And Engineer Sufficiency	51	2	5	36	60	48	20
Helpful Patent	74	2	3	50	59	44	37

Resource: World Economic Forum. The Global Competitiveness Report, 2009-2010

Organizational Perception Management

Today, individuals have heard the need to understand, explain and comment on events in the world where they continue their lives. The most important reason for this requirement is the struggle to adapt and sustain the life of the individual by understanding what is happening around them (Agarwal, 2009)

If, however, the individual can not understand what is happening around him and can not make a comment, he will begin to feel like he has fallen into a void and fall into mental depression. This can harm human beings in harmony with the universe they live in (Hogg & Vaughan, 2005).

So much so that the manageability of perceptions is a fact that can not be denied. It is even known that some societies are more suitable for perception management by manipulation than others (Zaman, 2007).

Assael (1998) defines customer perception as the selection, organisation, and interpretation of marketing and environmental stimuli into a comprehensible picture while Goldstein (2010) defines perception as a conscious sensory experience. Such perceptions are based on values from childhood. Individuals' perceptions are formed by interactions within families, and surroundings and key institutions (Pencepe, 2008).

Elsbach (2006) defines organizational perception management as actions that are designed and carried out by organizational spokespersons to influence audiences' perceptions of the organization. This definition is based on the four components of organizational perception management: perception of the organization; actions or tactics; organizational spokespersons; and organizational audiences. The organizational perceptions

is then categorised into three key forms of organizational images, organizational reputation, and organizational identities.

These factors that generally generate the essence of individual attitudes, behaviour and tendencies affect the way the relationships and interactions between individuals. The tendency to perceive situations, events, objects, and surroundings by individuals in their own distinctive way is named as “selective perception” (İnceoğlu, 2005).

Perception management includes all the activities that affect the thoughts of the target group and make them adapt the thoughts of the sender’s message. The factors that have importance in terms of perception process and affect perception process are mainly in three sections: the attributes of the individual perceiving (personality, experiences); the attributes of the object perceived (person, object, event, other); the environment of perception (conditions of physical, social and organizational environment where perception occurs).

Perception management has become very popular in recent years amongst both the public and private organisations. It is a management technique that manages a data stream of information to external audiences to influence their emotions, motives, and objective reasoning (Dozer, 2012). The following are advised for successful perception management:

- Consider the culture, values and attitudes of the target group
- Be clear and simple about the message
- Repeat
- Search the seriously the target group
- Show difference
- Bring the visuality into the forefront
- Address to the feelings and consciousness

It is crucial not to fall into conflict with the value system of the target group and of individuals (Saydam, 2012). Perception management should be applied in reference and be compatible with the culture of the target groups. Yalçinkaya (2013) argues that cultural frameworks are not observed then desired results might not be obtained. Medium for managing mass perceptions include both the traditional media (radio, tv, newspapers) and the social media (Facebook, Twitter).

Organizational reputation refers to value judgement formed in people’s minds based on the company as a whole. The philosophy and the strategy of the company are reflected within the organizational identity. Bakan & Kefe (2012) recognise company image, reputation and identity as important factors to consider under perception management.

There is only one reality in the marketing world; it is the perception of the costumer. Perceptions changes from person to person, from mind to mind (Ries & Trout, 2013).

In today’s marketplace most products compete with similar features and are delivered at similar places and times in order to offer a choice for customers. Prices alone are not enough to influence customer choice but product quality, service and positioning are also important (Ekdi 2005).

Losing a customer doesn’t only mean losing the next sale but losing a lifetime value of sales from that customer. Kotler (2011) explains that the cost of attracting a new customer is five times higher than the cost of keeping the present customer satisfied. Çetin (2005) posits that there are three important goals of company strategies developed in relation to Customer Relationship Management: (1) Enhancing customer satisfaction and loyalty; (2) increasing the long-term profitability; (3) reducing the costs to a minimum level.

The importance of the customer loyalty concept originates from the benefits related with retaining customers (McMullan, 2005). Reichheld (2003) in his research has shown that brand loyalty is linked to business performance. Brand loyalty is also regarded as being

an important predictor of long-term profitability (Salegna & Goodwin, 2005). The American Marketing Association defines customer loyalty as “the situation in which a consumer generally buys the same manufacturer-originated product or service repeatedly over time rather than buying from multiple suppliers within the category (Moisesescu & Vű, 2011).

The first step in extending the life expectancy of a company appears to be customer loyalty. Loyal customer does not only mean a profitable customer but a volunteer marketing personnel.

2. Method

For the aims of this study people working in selected companies in the city of Bursa, Turkey were interviewed face-to-face. An in-depth interview technique with open-ended questions was used where the managers and stakeholders of selected companies were interviewed on the degree of perception management used and the effect of customer loyalty on company profitability. Company awareness of perception management was investigated first followed by its usefulness to the company. Finally, the steps that the companies in Turkey could take on perception management and customer loyalty for profit maximization were discussed. Thus, an overall view on perception management and customer loyalty was obtained from the companies selected. The questions asked at the interviews to company owners, senior executives, sales and marketing managers, public relations managers are reported in the Findings with the received responses.

3. The sample

A total of 100 respondents were interviewed face-to-face in 6 months. The sample of convenience included 20 construction firms, 10 textile firms, 5 tourism firms, 6 automotive firms, 20 construction material producer firms , 10 insurance services firms, 10 sub-contracting firms, 10 fuel-oil firms and 9 firms working in the household appliances sector. The firms the sample had been in the industry for a minimum of 3 and a maximum of 46 years.

4. Data Collection

A semi-structured interview method was used in the research to collect data. The interview questions were first examined by experts and revised again. The questions were directed at the interviews to company owners, senior executives, sales and marketing managers, public relations managers. Questions also attempted to measure the degree of awareness of perception management amongst the respondents. In addition the usefulness of perception management was also asked.

Finally, steps the companies in Turkey could take on perception management and customer loyalty for profit maximization were discussed. The interviews had provided an opportunity to gain systematic and overall views of the people on perception management and customer loyalty.

5. Findings

The interview questions and related responses are given below:

Question 1: What sector are you in?

The “Table 1” illustrates the responses:

Table 1. What sector are you in?

Sector	Number of firms
Construction	20
Textile	10
Tourism	5
Automotive	6
Construction materials	20
Insurance	10
Sub-contracting	10
Fuel-oil	10
Household appliances	9
Total	90

The construction and the construction supply firms doubled in number the number of organisations in other sectors.

Question 2: How old is your company?

The "Table 2" below illustrates the responses:

Table 2. How old is your company?

Sector	1-5 years	6-10 years	11-20 years	21-30 years	31-40	41-50
Construction	4	5	6	5	-	-
Textile	-	-	3	7	-	-
Tourism	-	-	3	2	-	-
Automotive	-	-	2	4	-	-
Construction materials	3	3	9	4	-	1
Insurance	1	2	4	3	-	-
Sub-contracting	1	5	3	1	-	-
Fuel-oil	1	3	5	1	-	-
Household appliances	-	1	6	2	-	-
Total	10	19	41	29		1

Out of the 90 firms, 29 were in operation between 21-30 years. If the firms operating between 11-20 and 21-30 are put together (41+29) they would comprise the 67% (60/90) of the firms. There was only one firm more than 41 years old.

Question 3: What are the average profit rates in your sector?

The "Table 3" below illustrates the responses:

Table 3. What are the average profit rates in your sector?

Sector	Average profits (%)	Factors affecting profits

Construction	20-50	Location of constructions and type of projects
Textile	5-15	Decreasing profits due to chinese competition
Tourism	15-23	Affected by fluctuating demand and competition
Automotive		
Construction materials	8-10	Increasing domestic and international competition
Insurance	8-15	Depended of demand on the construction sector
Sub-contracting		
Fuel-oil	3-7	Government control and restrictions
Household appliances	5-7	Competition

Question 4: Do you have any plans or studies about enhancing customer loyalty?

Some answered negatively saying that there was no customer loyalty left within their industries while some said they had promotions aimed at retailers in that direction.

Question 5: Have you ever heard of perception management?

Those who said no accounted for 80%, those who said “we started to hear recently” accounted for 15%, and those who said “yes, we have heard and known” accounted for 5%.

Question 6: Do you believe that perception management contribute to company profitability?

Those who said yes expressed that they didn’t have information about how to apply this concept and that its being an abstract term, those who said no expressed that the customers were interested in the quality, the price and the service.

Question 7: What communication tools do you use?

These communication tools are given as answers, leaflets, brochures, radio, television, magazine advertisements and social media.

Question 8: What is your position in the company?

These answers was given, company owner, senior executive, sales and marketing manager, public relations manager.

Question 9: How much are your advertising and promotion expenses per annum?

The responses that are given to this question differed from 50,000 TL to 2,400,000 TL according to the size of the company, its sector, whether it a manufacturer or a retailer.

Question 10: Do you have a research and development department in your company?

All the manufacturers expressed that they had such functions in their companies. However, they also said that the main focus was on activities to develop the present products rather than developing a new product.

Question 11: Have you developed an innovated product in the last couple of years?

A great majority, 98% of the manufacturers said no. They stated that only two firms among the firms in the construction chemicals sector offered innovative products to the market.

Question 12: Do you believe that customer loyalty increases profits for the company?

All the respondents said yes.

Question 13: Do you have a department or a strategy on human resources?

The 90% of firms interviewed with said they had and the rest, smaller firms said they did not feel that there was such a current need and that they could manage without a human resource management function.

Question 14: Who determines the management the company funds?

All respondents pointed to the owners and shareholders.

Question 15: Can you read and interpret the financial statements of the company?

The 85% of respondents did not know how while the remaining 15% said they could.

Question 16: What do you think about the debtor turnover ratio in your sector?

Most respondents agreed that many debtors did not pay in time and the debtor turn ratios were low.

Question 17: Do you use bank loans?

All respondents agreed that they used bank loans.

Question 18: Do you follow and use the latest production technologies for your sector?

All respondents agreed that they followed and used the latest technologies available as much as possible.

Question 19: Do you have suggestions to enhance company profitability?

All the respondents operating as wholesaler and retailers stated that profitability depended on the conditions of the market and the manufacturers. They explained that profit rates were usually influenced by the manufacturers. On the other hand, manufacturers stated that profitability was up when new, different and creative solutions products were launched in the market.

Question 20: Do you have any suggestions to enhance customer loyalty?

All the responding companies agreed that the customers had a lot of alternatives which meant there was none if not little customer loyalty. Customers were looking for products that they could use at reasonable prices.

Cronbach's alpha used to test the consistency of the measuring instrument for the variables included in the model of the study were .792 for the 62 attitude statements. According to DeVellis (2003) an ideal values of alpha should range from .70 to .95. Therefore, the research measuring instrument was supported as consistent in measuring the effects of celebrity endorsement on purchase intention.

The average responses to the attitude statements revealed that

A two-tailed Pearson Bivariate Correlation analysis carried on the data yielded positive correlations were: Perception Management and the Life Expectancy of a Business Organisation were strongly correlated; $r=.594$, $p<.01$; Customer Loyalty and the Life Expectancy of a Business Organisation were strongly correlated; $r=.731$, $p<.01$; Profitability and the Life expectancy of a Business Organisation were strongly correlated; $r=.609$, $p<.01$.

Linear regression analysis was carried out to determine if the three independent variables significantly predicted the Life Expectancy of a Business Organisation.

		Perception Management	Customer Loyalty	Profit Maximization	Company life expectancy
Perception Management	Pearson correlation coefficient	1	,728**	,281**	,594
	Sig.		,000	,001	,000
	The number of participants	100	100	1000	100
Customer Loyalty	Pearson correlation coefficient	,728**	1	,560**	,731**
	Sig.	,000		,000	,000
	The number of participants	100	100	100	100
Profit Maximization	Pearson correlation coefficient	,281**	,560**	1	,609**
	Sig.	,001	,000		,000
	The number of participants	100	100	100	100
Company life expectancy	Pearson correlation coefficient	,594**	,731**	,609**	1
	Sig.	,000	,000	,000	
	The number of participants	100	100	100	100

6. Discussion

This study aimed to identify the relationship between customer perceptions, customer loyalty and company profits in order to reveal to what extent customer loyalty and

perception management are important for the profit maximization. A suggestion on the factors affecting profit maximisation were discussed and listed as funding power, proficient employees, manufacturing and communication technologies, Innovation, organizational perception management, and customer loyalty.

Perception management was discussed as an abstract term and how it should be brought into action. It was emphasised that although most popular, perception management is difficult to apply. Factors leading to profits when marketing products in competitive environments were also discussed. Another important concern was whether customers remained loyal where there were abundance of products and competitive offers.

The sample of respondents from different industries interviewed mostly agreed that they don't have enough profits the increase their funding power. The amount of profits that they get from operations helps them just to survive. Proficiency level of the employees was described as low. Most university graduates lacked working skills and experience. Those that did prefer going to work international companies competing locally or abroad. Respondents commented that they always kept an eye on the latest technologies and production methods. The cost of the new technology was high and they had to seek bank loans to finance new technology investments. They also added that some state help in this area would have been appreciated.

On communication technologies respondents explained that they mostly preferred the traditional methods using brochures, leaflets and sometimes new technologies such as social media. They found the cost of advertising too high. For customer loyalty, they explained that they tried to gain customer loyalty through product services, promotions and price discounts. Finally, respondents explained that they had been considering research and development activities for some time but as they need a long-term investment, they rather concentrated on developing existing products where they could obtain quicker results.

7. Limitations and recommendations for further research

This research was descriptive in nature as it tried to describe the variables that lead to understanding of the relationship between customer perceptions, customer loyalty and company profits at a given industrial location. Further research is recommended in further exploring these variables with an aim to measure the correlations between them.

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